5.1 Public- and private-sector roles in achieving zero deforestation

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Introduction

Evidence suggests that companies are committed to, and increasingly committing to, deforestation-free supply chains. The focus now is on implementation, and the pressure is on to deliver on these promises. The private sector does not operate in a vacuum, and to achieve their ambitious goals, businesses will need to work together and cooperatively as well as on their own. Having a supportive external enabling framework will also be critical for the success of these commitments; this framework needs to outline a clear role for the world of finance and policy alike.

In late 2015, two crucial international agreements laid a framework for a more environmentally and socially sustainable global economy. The Sustainable Development Goals (SDGs), agreed to in September 2015, and the Paris Agreement on climate change three months later, represent significant steps in efforts to address some profound challenges that the world faces.

Forests are crucial to a sustainable post-2020 global economy.

The need to halt deforestation and forest degradation is not in question. Many companies have recognized their role in helping to address this issue by pledging to remove deforestation from their supply chains through making commitments to zero deforestation. But what progress has been made with implementation? And are these commitments realistic? This article will argue that they are, but that success depends on the enabling environment the company operates in — meaning that actors outside of the company also have a critical role to play.

Increasing commitments

Reducing deforestation has become an important business issue for any company active in global trade in soy, palm oil, or cattle and timber products — whether they know it or not. The production of these forest-risk commodities can contribute to habitat loss, greenhouse gas emissions and social conflict, resulting in risks to supply chains for suppliers and customers alike.

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Slowly but surely companies are moving to recognize deforestation risks as a business priority. An example is CDP's forests program, which asks companies each year to detail information about their efforts to understand, assess and manage business risks related to deforestation. In 2016, CDP had responses from over 200 companies, up from 180 in 2015, including Archer Daniels Midland, Bunge Limited and Cargill. They make up three of the four "ABCD" global commodity trading giants (the fourth, Louis Dreyfus Company, did not respond to CDP's disclosure request). CDP also received responses from the three largest slaughterhouses in Brazil, and big-name brands from Nestlé to Starbucks.

Company data show that sustainability risk within commodity supply chains is real and is having an impact on company performance. For example, 81% of agricultural producers and 45% of food and staples retailing companies report impacts related to forest risk commodities that have led to major changes in operations, revenues or expenditures over the past five years. And 68% of producers, processors and traders, and 65% of manufacturers and retailers recognize risks that could cause supply chain impacts within the next six years. Business is at risk, and for many companies, the financial case for tackling this issue has never been clearer, with US$ 906 billion in corporate turnover of publicly listed companies linked to these commodities (CDP 2016).

This has resulted in a surge in the number of companies that have made commitments to address this issue in the past three years. But are these commitments actually being implemented? Are they really achievable? And can they be monitored? The question of implementation is key, because although companies should be commended for making strong commitments to zero deforestation, it is taking action that counts. The majority of commitments have been made for oil palm and wood-based products; less attention has been paid to soy and cattle commodities (Climate Focus 2016). Any corporate commitment must be worth the paper it is written on, which means that it must be strong, actionable and time-bound and that its progress can be tracked.

Inadequate implementation

Data shows that implementation of these commitments is falling short of what is needed to meet individual corporate goals, and is also not enough to achieve collective goals such as those under the New York Declaration on Forests. The private sector must be central to meeting the objectives of both the Paris Agreement and the SDGs, which, unlike the Millennium Development Goals before them, were crafted with input from the business community.

Worryingly, although companies are confident that they will meet these goals, recent CDP data (CDP 2016) shows that progress is slow, including on key actions with suppliers. Across the four main forest risk commodities 72% of companies believe that they will be able to obtain a secure and sustainable supply of these in the future, but only one in five companies assess risks associated with deforestation beyond a six-year time horizon. Their long-term planning and commitment must therefore be questioned, and this highlights the need for goals and supporting incentives that are truly long term — heralding the end of business as usual.

Deforestation risk must be monitored and managed from the board of directors level and should in turn feed into the business strategy. Despite this, more than one-third (34%) of companies reporting to CDP in 2016 do not have board-level responsibility for managing deforestation risk. Fewer than half of those manufacturers and retailers with procurement standards in place reported to CDP in 2016 to monitor compliance with these standards and audit their suppliers across commodities. And only 56% reported across commodities that they work beyond the first tier of their supply chain — suggesting that implementation measures are not extending throughout the chain.

Overcoming barriers

CDP's analysis of company responses shows that although a majority of them recognize deforestation as a risk, fewer than half have considered deforestation as part of a company-wide risk assessment for their full supply chain across commodities. This means that its potential impact on a company and the potential impact of the company itself is under-appreciated.

Companies often adopt a combination of approaches to meet their goals for zero deforestation, including certification and traceability systems. A programme of meaningful supplier engagement is also critical in delivering these commitments. Despite a high proportion of companies reporting that they work with their direct suppliers, analyzing the concrete actions that companies are taking with their suppliers tells a different story. For example, for those manufacturers and retailers that reported to CDP in 2016 on palm oil, 87% report working with their direct suppliers. Looking at the responses in more detail, however, shows that only 37% of manufacturers and retailers conduct supplier audits, less than one-third (31%) run workshops and training for their suppliers, only 17% run joint projects, and a mere 9% offer technical support (Figure 1).

Figure 1. Ways that companies work with suppliers

The main barriers to implementing zero-deforestation commitments that companies report have remained the same since 2013: inadequate traceability systems; weak governance (and compliance enforcement) of national deforestation policies; and the limited availability and high cost of certified materials. Companies that depend on secure supplies of forest-risk commodities need to look both within themselves and to the external enabling environment to guarantee sustainable growth and to implement their commitments. They must ensure that internal policies, processes and procedures are adequate to manage existing and potential commodity-related risks, but they also need to work with external stakeholders to ensure that commodity supply chains are free of deforestation.

The external environment in which companies operate will also influence the success or failure of their efforts to remove deforestation from their supply chains. This points to a critical role for policy makers and financial institutions in accelerating progress, since it is clear that companies cannot succeed in isolation.

What companies can do

Ensure that governance and risk assessments are equal to the challenge

Meeting zero-deforestation commitments requires that internal governance is strong and that planning is adequate. Disclosures to CDP suggest that companies are not always adopting the right internal practices. Work more closely and effectively with suppliers

For example, German consumer goods giant Henkel AG reports that it is providing targeted support to oil palm plantations and smallholders to promote sustainable farming practices, improve livelihoods and ensure that sufficient volumes of sustainable oil are available on the market.

Ensure transparency at each stage of the supply chain

This is critical for meeting zero-deforestation commitments. However, fewer than half of manufacturers and retailers audit their suppliers across commodities. If monitoring and supplier selection is not followed up with audits, reviews, and improvement plans, there is no guarantee that these internal practices will have the anticipated external effects. Audits can help embed best practice throughout supply chains. For example, UPM-Kymmene Corporation, the Finnish pulp and paper company, subjects second-tier suppliers to audits, which it describes as “an excellent training opportunity.” Lack of supplier disclosure and transparency can lead to missed opportunities as well as hidden risks.

Work together to address market-wide issues

Companies are struggling on their own to accelerate efforts to drive deforestation out of commodity supply chains. The Consumer Goods Forum — which has identified deforestation as one of the key challenges it seeks to address — shows how progress can be made by competitors working together, and by bringing together corporate leaders to support its work. The next challenge is to ensure that this leadership is effectively transmitted throughout the organizations involved (GCP and CDP 2016).

Tackle deforestation through landscape or jurisdictional approaches

Both approaches have the potential to address several challenges regarding the sourcing of sustainable forest-risk commodities. Landscape approaches aim to meet the needs of different stakeholders within a landscape by moving away from a sectoral approach to land management and by seeking to simultaneously address competing social, economic and environmental objectives. A jurisdictional approach is a type of landscape approach that uses government administrative boundaries (usually sub-national) to define the scope of action and involvement of stakeholders; this can include companies that operate in and source from the jurisdiction. An increasing number of companies are interested in exploring these approaches to sourcing commodities. For example, Unilever Plc has announced that it will prioritize commodity sourcing from areas that are pursuing comprehensive forest climate programmes under what it describes as "production protection paradigms." This approach allows the company to improve the security of its supply chains within specific landscapes while making monitoring and verifying environmental and social impacts more straightforward, rather than monitoring each plantation individually (Unilever 2016).

What financial institutions can do

Increase scrutiny of companies' management of deforestation risk

This scrutiny is growing; in 2016, for example, investor group Ceres tracked five shareholder resolutions calling for reporting around deforestation impacts (Ceres 2016). Financial institutions such as Morgan Stanley and UBS, who are signatories to CDP's forests programme, are concerned because the very real business risks involved have become more clear. Meanwhile, the value of forests and climate-smart agriculture is becoming more tangible to investors, as is illustrated by the issuance of a forest carbon bond by the World Bank in October 2016. The first bond of its kind, it raised US$152 million, which will be used to prevent deforestation in emerging markets (IFC 2016).

Use investments and lending to improve the sustainability of supply chains

Financial institutions have a key and influential role to play in outlining their clear expectations and engaging with companies on these expectations to accelerate progress toward supply chains that are free of deforestation. For example, 12 banks have adopted the Soft Commodities Compact to help Consumer Goods Forum companies work towards implementing their commitments.

What policy makers can do

Commit to zero deforestation at the national level

A total of 190 governments, private-sector entities and civil organizations have endorsed the New York Declaration on Forests; it sets ambitious targets to end natural forest loss by 2030, with a 50% milestone at 2020. The Norwegian parliament has committed the government's public procurement to becoming deforestation-free, and similar commitments by other countries will send a strong signal to the private sector.

Work on governance through bilateral agreements

Governments are using bilateral agreements to tackle the issue of illegal timber and are already starting to realize results. The 2016 issuance of the first EU Forest Law Enforcement Governance and Trade licences for timber (resulting from the EU-Indonesia Voluntary Partnership Agreement) is a good example of prioritizing improvements to regulatory governance that other governments can replicate.

Treat REDD+ as an opportunity for national compliance with Paris and the SDGs

REDD+ holds the potential to attract new investment, particularly from the private sector, to reduce deforestation and forest degradation. CDP data shows that companies are realizing these opportunities by examining existing supply chains to identify where REDD+ activities could add value. Treating REDD+ as an opportunity will allow governments worldwide to achieve their deforestation targets by harnessing this private-sector interest.

Embrace innovative public–private partnerships

Governments can partner with the private sector to create the future we want to see through public-private partnerships such as the Tropical Forest Alliance 2020. This initiative fosters cross-sector collaboration where voluntary actions are taken by partners such as the Government of the Netherlands and companies Nestlé and Mars to reduce tropical deforestation driven by commodities.

Explore jurisdictional landscape approaches

Sub-national governments can make a strong contribution to reducing deforestation, but will need to be empowered to meet their environmental goals through appropriate high-quality regulation. This will require national governmental support and avoidance of regulatory duplication or overlap.

Conclusions

If progress is not accelerated to meet deforestation commitments, a real danger exists. Unless the pace of action steps up, as the 2020 target date for many corporate deforestation commitments approaches there is a risk that many of the issues and challenges identified by CDP's forests program remain unresolved. Voluntary action by companies can be accelerated and broadened to the necessary pace and scale if governments provide enabling policy environments. A virtuous circle can be created, where governments encourage companies to act, companies respond to policy signals and take action, and this in turn enables governments to set more ambitious time frames for reducing deforestation.

The commitment is there, the political stage is set, but too few companies grasp the extent of the risks they face — or the opportunities that exist to build more resilient businesses that also differentiate them from their competitors. The only way to meet the commitments that have been made to the world's forests — at the international, national, sub-national and corporate levels — is if all actors across the public and private sectors play their part. Sustainable development and the climate depend on it.

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